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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

April, 1980

THE CONFERENCE BOARD

The Conference Board Survey of Financial Indicators

April 1980

Introductory Note: This is the eighth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

The eighth semiannual survey of Financial Indicators and Corporate Financing Plans was made during a period of great uncertainty in which interest rates rose to new record high levels. It was also a period in which a number of corporate financial executives were starting to raise fundamental questions as to whether U.S. capital markets would continue to provide long-term funds at fixed interest rates. The financial executives participating in this survey *will* continue to rely on long-term funds in their own financial planning, at least for the coming 12-month period.

Among the main conclusions of the 34 senior corporate financial officers who participated in this survey:

- The United States will experience a "nothing" economy in terms of real economic activity, with a mild recession in 1980 followed by a slow recovery in 1981.
- Despite this economic outlook, double-digit interest rates will persist, largely due to continuing high rates of inflation.
- Corporations will rely heavily on new bond issues in their external financing plans.

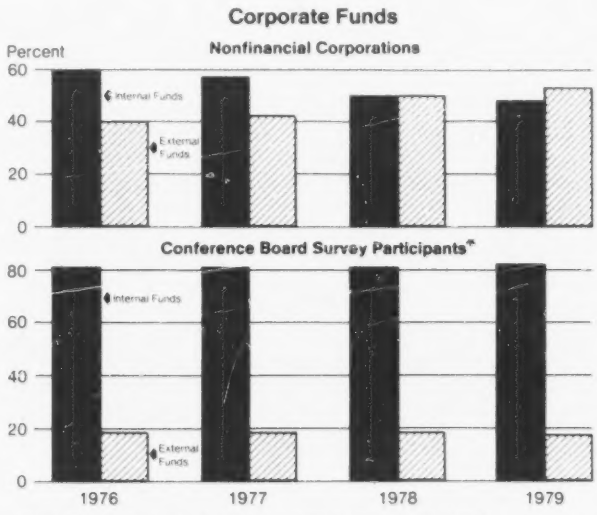
U.S. Financial Indicators

Panel members now see a mild recession in 1980, and a relatively flat economy through 1981. In the October, 1979 survey, they had anticipated real economic growth of 3.2 percent in 1981, but they now expect real growth of roughly 1.0 percent. In spite of the weak economy, very little headway is seen in the battle against inflation. The GNP deflator is expected to rise at an average rate of 9.6 percent in 1980 and 9.2 percent in 1981.

The participating financial executives look for declines in both short-term and long-term interest rates. But, in line with their expectations of continuing high rates of inflation, they see interest rates remaining at uncomfortably high levels. Also, as in last October's survey, they continue to see short-term rates averaging above long-term rates throughout the forecast period. While estimates of the prime rate average 15.4 percent this year and 12.0 percent in 1981, those of the Aaa rate average 12.3 percent in 1980 and 11.0 percent in 1981. Four executives think government policymakers will introduce mandatory wage-price controls in 1980; six think mandatory controls will be introduced next year.

Corporate Financing Plans—March 1, 1980 to February 28, 1981

Since the October, 1979 survey, two unexpected changes have taken place in the financing patterns of the companies participating in this survey. First, their actual financing pattern for the latest 12-month period shows that they have made somewhat greater use of



*Includes the last 4 months of 1975 and excludes the last 4 months of 1979
Sources: Federal Reserve; The Conference Board

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Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate, and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of survey)	Outlook: Average June '80 (2nd Q GNP)	Outlook: Average Sept. '80 (3rd Q GNP)	Outlook: Average 1980	Outlook: Average 1981
New Aaa industrial rate (%)	11.3	12.5	12.6	12.3	11.0
Prime rate (%)	15.3	17.1	15.2	15.4	12.0
Dow-Jones Average (Index)	861.0	838.0	853.0	859.0	925.0
Real GNP (%)	1.4	—1.4	—1.9	0.0	1.0
GNP deflator (%)	8.7	10.1	9.4	9.6	9.2

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

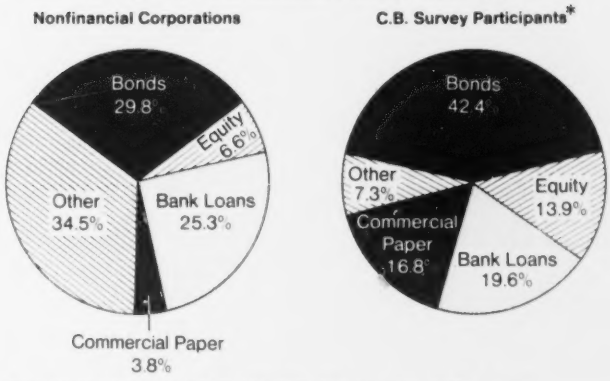
	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds[1]	78	10	3	5	3	10
External Funds	22	10	3	10	3	5
	100%					
(b) Composition of *External Funds*						
Net bond issues	21.2	12	1	9	0	4
Private placements	6.6	16	2	5	1	2
Net new equity	17.0	15	0	5	1	5
Bank term loans	16.7	15	2	4	1	4
Bank short-term loans	24.7	14	1	5	1	5
Commercial paper	7.8	7	0	10	1	8
Other	6.0	21	0	2	1	2
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1980:

	Latest Available 3/1/80	Expected Change (Number of Respondents) By June 30, 1980: Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By September 30, 1980: Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .8737	11	8	1	7	2	9	12	0	5	1
British pound	2.26	4	4	0	17	4	1	4	2	16	4
German mark	.5624	10	4	2	11	2	7	10	3	7	0
Japanese yen	.0040	7	5	2	12	2	5	12	1	8	0
Gold	$637.00	2	5	10	2	6	3	4	8	6	3

Composition of External Funds, 1976-1979



* Includes the last 4 months of 1975 and excludes the last 4 months of 1979
Sources: Federal Reserve, The Conference Board

external funds than they had anticipated. Second, they have also raised relatively fewer new funds in long-term markets and relatively more in commercial bank loans than they had anticipated in earlier surveys. One possible explanation for the latter development is that companies were reluctant to issue long-term debt at historically high interest rates and turned to commercial banks for interim financing.

As for their outlook for the period from March 1980 through February 1981, more financial executives see their relative reliance on external funds increasing than decreasing. These expectations are consistent with the financing pattern of companies during periods of slowing economic growth and deteriorating profits.

Also, in line with their interest-rate outlook, panel members plan to issue more long-term debt in future months. Seventeen of them see net bond issues and private placements increasing as a proportion of total external funds, and fourteen of them expect increases of 10 percentage points or more in these long-term funds.

Corporate Financing Patterns: A Comparison

The financing pattern of the companies participating in this survey can be compared with that of all nonfinancial corporations for a roughly comparable period. There are several sharp differences in their respective financing patterns.

First, the larger companies that participate in The Conference Board survey place much greater reliance on internally generated funds than do corporations as a whole (roughly 81 percent for the former against roughly 54 percent for the latter). Moreover, the financing pattern is far more stable for companies in the survey than for all nonfinancial corporations—for which internal funds have ranged from 47 percent to 60 percent (see chart).

There are also important differences in the external financing patterns of the two groups of companies. With respect to funds raised in the capital markets, companies in the survey place much greater reliance on new bond issues and on equity financing. And they also rely far more heavily on issuing commercial paper to meet their short-term requirements for funds. On the other hand, they rely less heavily on loans from commercial banks, and they make far less use of "other" external funds, such as mortgages and finance company loans, than do corporations as a whole. These results support the findings of an earlier Conference Board study on the different financing patterns of large and medium-size companies. (V. Massaro, *Corporate Capital Structures and Financing Patterns: 1977-1980*, Report No. 734)

The International Environment

A majority of the financial executives who are engaged in international operations see the British pound weakening against the U.S. dollar over the next two quarters from its exchange value of March 1st. And, in spite of the sharp drop in the price of gold in March, the majority look for the price of gold to rise against the dollar by June 30th.

The panel's views on other major currencies are less clear-cut. Generally, more executives see the German mark and the Japanese yen depreciating than appreciating against the U.S. dollar by June 30; but more of them also expect these currencies and the Canadian dollar to appreciate than to depreciate against the U.S. dollar by September 30, 1980. In short, they interpret the strengthening of the dollar in early 1980 to be temporary in nature.

Vincent G. Massaro